Consolidated **Statements of Income**

[thousands except per share amounts]

	1988	1987	1986
Net Sales	**$4,070,777**	$3,527,941	$3,142,696
Cost of Goods Sold, Occupancy and Buying Costs	**2,856,074**	2,535,166	2,180,869
Gross Income	**1,214,703**	992,775	961,827
General, Administrative and Store Operating Expenses	**747,285**	583,903	523,598
Operating Income	**467,418**	408,872	438,229
Interest Expense	**(63,418)**	(40,322)	(45,900)
Other Income (Expense), net	**(7,864)**	9,638	2,451
Income Before Income Taxes	**396,136**	378,188	394,780
Provision for Income Taxes	**151,000**	143,000	167,000
Net Income	**$ 245,136**	$ 235,188	$ 227,780
Net Income Per Share	**$1.36**	$1.25	$1.21

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated **Balance Sheets**
[thousands]

	January 28, 1989	January 30, 1988
Assets		
Current Assets		
Cash and Equivalents	**$ 15,276**	$ 47,953
Accounts Receivable	**531,461**	514,101
Inventories	**407,006**	353,693
Other	**69,851**	47,906
Total Current Assets	**1,023,594**	963,653
Property and Equipment, net	**1,066,646**	889,155
Other Assets	**55,266**	76,669
Total Assets	**$2,145,506**	$1,929,477
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts Payable	**$ 189,184**	$ 153,528
Accrued Expenses	**189,579**	131,602
Income Taxes	**77,192**	48,740
Total Current Liabilities	**455,955**	333,870
Long-Term Debt	**517,952**	681,000
Deferred Income Taxes	**198,893**	174,209
Other Long-Term Liabilities	**26,499**	11,227
Shareholders' Equity		
Common Stock	**94,863**	94,837
Paid-in Capital	**203,693**	205,328
Retained Earnings	**879,386**	677,232
Unrealized Loss on Marketable Equity Securities	**—**	(8,219)
	1,177,942	969,178
Less Treasury Stock, at Cost	**(231,735)**	(240,007)
Total Shareholders' Equity	**946,207**	729,171
Total Liabilities and Shareholders' Equity	**$2,145,506**	$1,929,477

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated **Statements of Cash Flows**

[thousands]

	1988	1987	1986
Cash Flows from Operating Activities:			
Net income	**$245,136**	$235,188	$227,780
Impact of other operating activities on cash flows:			
Depreciation and amortization	**142,469**	109,353	97,393
Changes in assets and liabilities:			
Accounts receivable	**(16,930)**	13,735	(108,161)
Inventories	**(44,072)**	7,796	(41,184)
Accounts payable and accrued expenses	**91,570**	(18,266)	14,844
Income taxes	**53,136**	19,572	93,202
Other assets and liabilities	**21,570**	2,390	6,558
Net Cash Provided from Operating Activities	**492,879**	369,768	290,432
Investing Activities:			
Capital expenditures	**(288,972)**	(283,590)	(196,487)
Acquisition of Abercrombie & Fitch	**(45,206)**	—	—
Other	**7,989**	(25,721)	—
Net Cash Used for Investing Activities	**(326,189)**	(309,311)	(196,487)
Financing Activities:			
Net (repayments) borrowings under long-term debt agreements	**(163,048)**	263,580	(78,324)
Purchase of treasury stock	**—**	(240,007)	—
Dividends paid	**(42,982)**	(44,724)	(29,507)
Stock options and other	**6,663**	5,391	4,194
Net Cash Used for Financing Activities	**(199,367)**	(15,760)	(103,637)
Net (Decrease) Increase in Cash and Equivalents	**(32,677)**	44,697	(9,692)
Cash and equivalents, beginning of year	**47,953**	3,256	12,948
Cash and Equivalents, End of Year	**$ 15,276**	$ 47,953	$ 3,256

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated **Statements of Shareholders' Equity**
[thousands]

	Common Stock						
	Shares Outstanding	Par Value	Paid-in Capital	Retained Earnings	Unrealized Loss on Marketable Equity Securities	Treasury Stock, at Cost	Total Shareholders' Equity
Balance, February 1, 1986	**119,834**	**$59,917**	**$ 24,695**	**$319,463**	**$ —**	**$ —**	**$404,075**
Net income	—	—	—	227,780	—	—	227,780
Cash dividends	—	—	—	(29,507)	—	—	(29,507)
Three-for-two stock split	60,032	30,016	—	(30,016)	—	—	—
Conversion of debentures	8,312	4,156	170,844	—	—	—	175,000
Exercise of stock options and other	618	309	3,885	—	—	—	4,194
Balance, January 31, 1987	**188,796**	**94,398**	**199,424**	**487,720**	**—**	**—**	**781,542**
Net income	—	—	—	235,188	—	—	235,188
Cash dividends	—	—	—	(44,724)	—	—	(44,724)
Purchase of treasury stock	(10,828)	—	—	—	—	(240,007)	(240,007)
Exercise of stock options and other	879	439	5,904	(952)	(8,219)	—	(2,828)
Balance, January 30, 1988	**178,847**	**94,837**	**205,328**	**677,232**	**(8,219)**	**(240,007)**	**729,171**
Net income	—	—	—	245,136	—	—	245,136
Cash dividends	—	—	—	(42,982)	—	—	(42,982)
Exercise of stock options and other	425	26	(1,635)	—	8,219	8,272	14,882
Balance, January 28, 1989	**179,272**	**$94,863**	**$203,693**	**$879,386**	**$ —**	**$(231,735)**	**$946,207**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

THE LIMITED, INC.
Annual Report 1988

This is our 25th year and the most important thing we've learned is this: Nothing happens until the customer says ***'I'll take it.'*** No one can predict exactly what she's looking for. No one can create fashion trends. Yet we've been phenomenally successful at anticipating our customer.



The key is

OUR ABILITY TO CHANGE.

LESLIE H. WEXNER, CHAIRMAN

FINANCIAL HIGHLIGHTS

[thousands except per share amounts]

	Fiscal 1988	Fiscal 1987	% Increase (Decrease)
Operating Results			
Net Sales	**$4,070,777**	$3,527,941	15%
Operating Income	**$ 467,418**	$ 408,872	14%
Income Before Income Taxes	**$ 396,136**	$ 378,188	5%
Net Income	**$ 245,136**	$ 235,188	4%
Net Income as a Percentage of Sales	**6.0%**	6.7%	
Net Income Per Share	**$1.36**	$1.25	9%
Return on Average Shareholders' Equity	**29%**	31%	
Year End Position			
Working Capital	**$ 567,639**	$ 629,783	(10%)
Current Ratio	**2.2**	2.9	
Total Assets	**$2,145,506**	$1,929,477	11%
Long-Term Debt	**$ 517,952**	$ 681,000	(24%)
Shareholders' Equity	**$ 946,207**	$ 729,171	30%
Selling Square Feet	**14,296**	12,795	12%

OF COURSE WE'RE PROUD of what The Limited has become, but that's yesterday's news. Our customer doesn't give a damn that we've been in business for 25 years or that we have 3,400 stores... and why should she? When she goes into a store she wants to see something new and she wants to see it now.

1988	STORES OPEN AT END OF YEAR	1987
754	Limited Stores	711
418	Express	348
328	Victoria's Secret	236
784	Lerner	770
687	Lane Bryant	631
384	Lerner Woman/Sizes Unlimited	398
25	Abercrombie & Fitch	—
1	Henri Bendel	1
3381	Total	3095

Anticipating the customer is an art not a science

There is no formula for creating excitement. No computer can tell you today how a customer will react tomorrow. To anticipate, we have to lead and follow at the same time. We keep up with the customer's changing needs by acting on our most creative impulses.

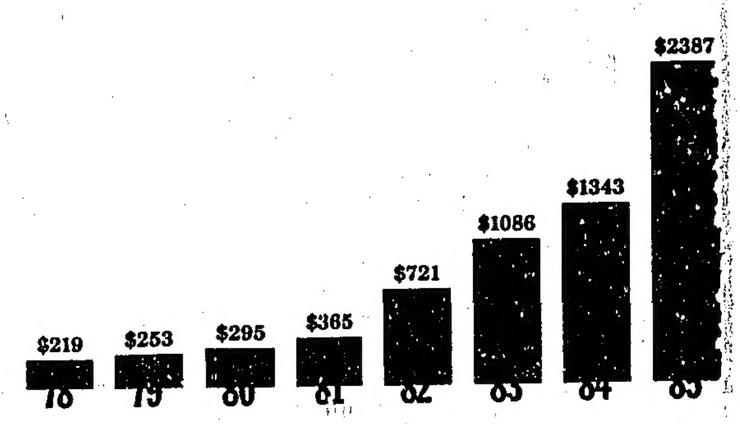
Nothing is taken for granted: Ideas are constantly being sought out and tried. We don't schedule creativity. We don't just fuss with details–we're continually questioning basic premises.

EXPRESS

Offers fashion-forward Compagnie Internationale Express brand sportswear and accessories in dramatically designed stores. Express for men introduced in 1987.

EXPRESS IS A NEW business today, totally different from the company of a year ago. It has developed a new look and a new merchandising concept. The Express customer has responded dramatically to the more sophisticated "Compagnie Internationale" assortment and store design, propelling the business to record levels of sales and profitability in the third and fourth quarters. It was the Express customer, and the men she often shops with and for, who led us to the idea of a collection for men. Express for men is now offered in 74 stores. In only seven years Michael Weiss and his associates have grown Express from 8 stores to 418 stores today, adding nearly 400,000 selling square feet in 1988 alone. I believe Express has the potential to be more than a $1 billion business...in its first decade!

STARTED IN 1980 WITH 2 STORES
NUMBER OF STORES: 418



NET SALES (in millions)
CAGR 34% (Compound Annual Growth Rate, last ten years.)

You can see that restlessness expressed in every business. We are constantly in the stores looking for ideas *and* listening to our customer. If we listen carefully enough she'll tell us all we need to know.

Creativity and innovation are essential to our success . . . and risky. The best informed hunch is just a hunch and the smartest merchant's instinct is still an instinct. We *will* have failures. We work hard to make risk acceptable. We reward the risk taker who succeeds; we don't penalize the one who fails.

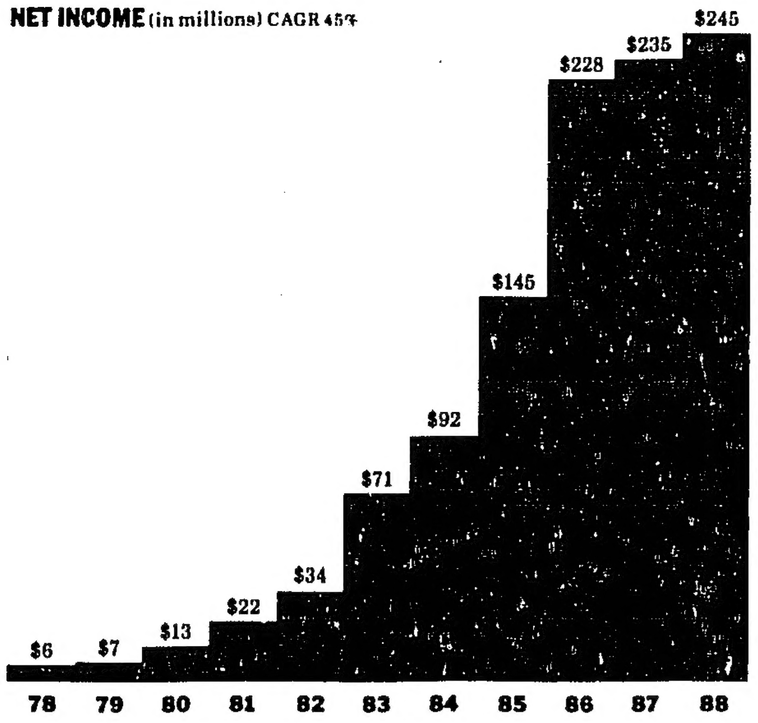


LIMITED STORES

The international fashion source offers brands including Cassidy, Forenza, Outback Red, Axcess, Lingerie Cacique and Limited Too.

THERE ARE TIMES when the best way to get at the answer is to ask a different question. Three years ago Verna Gibson and the associates of Limited Stores needed an answer: how to build Limited Stores into a $1 billion business. With nearly 600 stores and a very limited number of potential new sites, conventional wisdom said that the company had crested. The question that was asked instead: How do we grow Limited Stores into a *$3 billion* business? In the midst of a retail recession Limited Stores, the industry leader, implemented totally new merchandising and marketing strategies. In addition to unveiling Limited Too, fashion for kids, and Lingerie Cacique, Limited Stores opened 25 dramatically different stores. This larger (12,000-20,000 square foot) International Fashion Store is opening up significant opportunities for Limited Stores. In their first year the International Fashion Stores were as productive, on a sales-per-square-foot basis, as our Limited Stores average. This extraordinary customer response suggests that Verna and her associates are on their way to their sales goal of $3 billion.

STARTED IN 1963 WITH 1 STORE
NUMBER OF STORES: 754



It's natural for small companies to think big... but it takes a deliberate effort for a big company to think and act small.

When I opened the first Limited store in 1963 I made an incredible effort to see that every detail was as perfect as I could make it. Today we open approximately *three hundred* stores every year—and each one gets the kind of attention given our first store. When we recently opened our large format Limited store at the Northland Shopping Center in Columbus, Ohio, the team had been at work until

VICTORIA'S SECRET

IN 1988 Howard Gross and his associates set new sales and earnings records while successfully introducing major new product lines, including toiletries, fragrances, bath products and accessories, and an expanded men's line. Larger format stores maximize the visibility of the new lines. The distinctive new "Bond Street" store environment reflects the English influence which will transform the business in the 90's. Today Victoria's Secret is the dominant intimate apparel store in the world.

Purveyors of fashionable intimate apparel and personal luxury items now featured in the larger "Bond Street" format.

ACQUIRED IN 1982
WITH 4 STORES
NUMBER OF STORES: 328

STORE HISTORY

1
'63

three a.m. the night before...and that was the associates' thirteenth 18-hour day in a row.

Our presidents get involved in these kinds of efforts because they have the basic hands-on skills to sell to a customer, select a style or change something in a store to make it better.

Our performance during this past year suggests that we not only survived the 1987 women's apparel recession, but emerged stronger than ever. **Our net sales for 1988 increased by more than $540 million. Operating income increased more than 14% and earnings per share were up nearly 9% to $1.36 per share.**

MARK SHULMAN and the team he has assembled are preparing to take an important step in the growth of Henri Bendel, transforming a single store business into a national and international presence. International design talent is at work on the new Henri Bendel. Today the 57th Street Henri Bendel store is being used as a laboratory for constant experimentation. The process of getting to know the customer continues. In 1990 Henri Bendel will move to an 80,000 square foot landmark location on Fifth Avenue, into what we believe will be the most elegant women's store in the world. Stores will be opened in Chicago, Boston and Columbus during the coming year.

International designer clothes and accessories.

HENRI BENDEL

ACQUIRED IN 1985
WITH 1 **STORE**
FOUNDED IN 1896



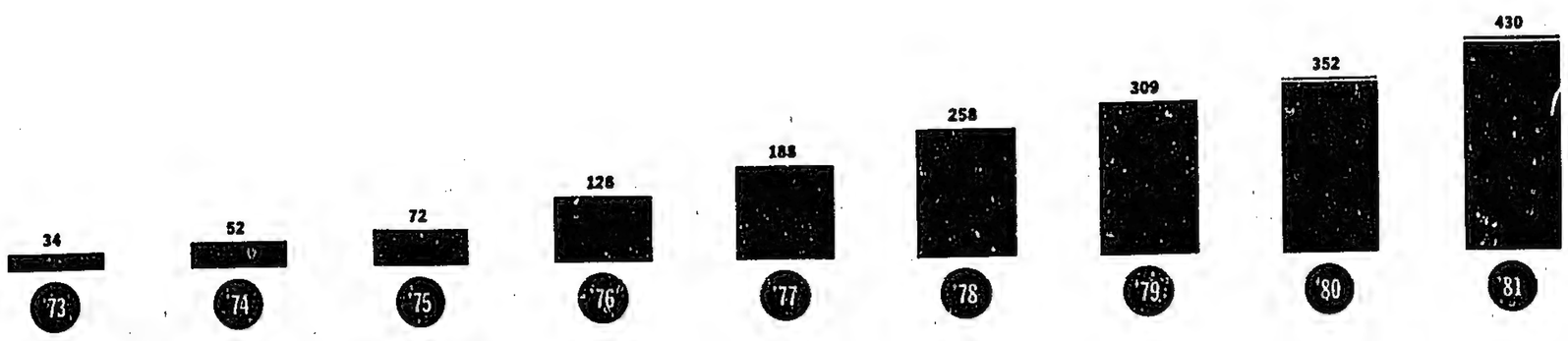
LERNER

The largest women's specialty apparel business under one name in the country is spearheading dramatic change in the moderate-price business.

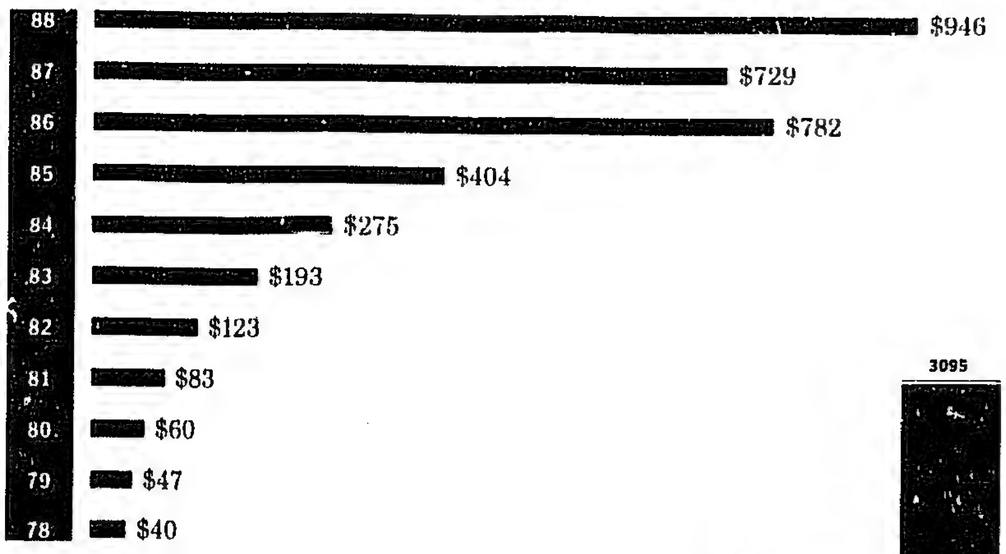
LERNER was the sleeping giant of The Limited: Its market is not only the largest, but the one we believe is least served by other national retailers. Since the acquisition in 1985 Bob Grayson and his associates have taken a tired, unprofitable 80-year-old business and given it a whole new future. It will take persistence, vision and a continued focus on the customer...but I believe Lerner has the potential to be a $2 billion business within the next five years.

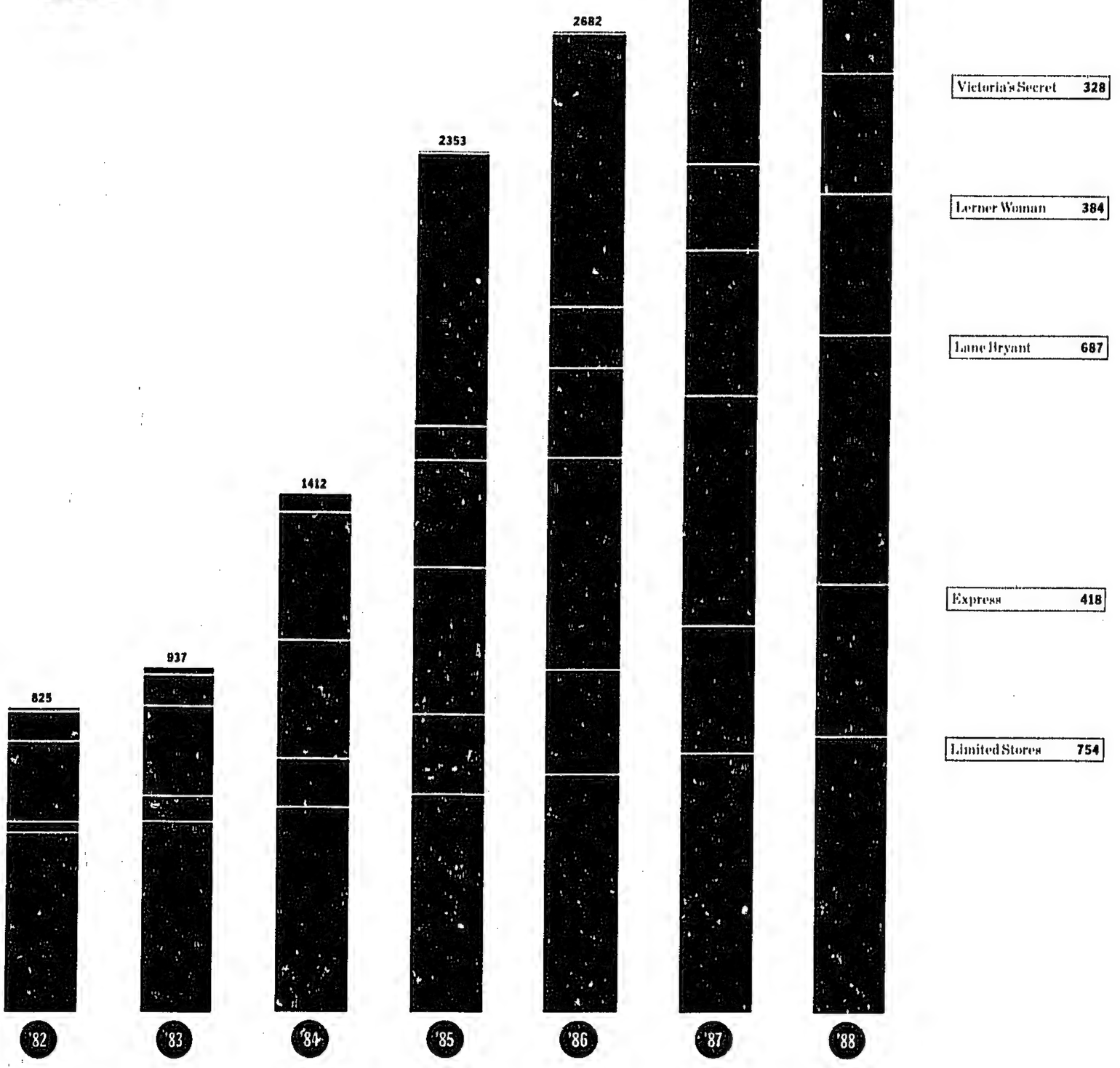
ACQUIRED IN 1985 **WITH** 750 **STORES**
NUMBER OF STORES: 784
FOUNDED IN 1918

I am proud of what our retail associates have accomplished and of the vital role played by our support businesses. Marty Trust and the associates of Mast Industries achieved record profits on near-record sales. Charlie Hinson and the Store Planning associates created new designs for several divisions and new formats for Limited Stores, Express, Lerner and Victoria's Secret. The associates of Limited Real Estate added a total of 1.5 million selling square feet during the year. Ralph Spurgin and the associates of Limited Credit Services continued to provide our customers with the best service of any retail credit company in the country, having reduced



SHAREHOLDERS' EQUITY (In Millions) CAGR 82-88





Abercrombie & Fitch	25
Henri Bendel	1
Lerner	784
Victoria's Secret	328
Lerner Woman	384
Lane Bryant	687
Express	418
Limited Stores	754

LERNER WOMAN IS NOT SIMPLY an altered company but a brand new business. The merging of Sizes Unlimited and Lerner Woman in 1987 has created the second largest specialty business in the large size market. In 1988 Raphael Benaroya and his associates emphasized offering the greatest possible value to the customer—the highest quality at the best price. This not only means anticipating the customer's needs, but working constantly to simplify the business. We expect that in 1989 Raphael and his associates will move toward fully realizing the profit potential of their business.

ROAMAN'S (21 STORES AND 41 SIZES UNLIMITED STORES) ACQUIRED IN 1982 **NUMBER OF STORES:** 384

LERNER WOMAN

Formed by the merger of Sizes Unlimited and Lerner Woman, offering sportswear, dresses and accessories, sizes 14 and up.

their average response time to a telephone call to *5 seconds*. A record number of shipments were handled by Lee Johnson and the associates of Limited Distribution Services, who reduced transit times by *10%* in 1988.

By supporting the retail businesses these associates make a major impact on the services which our customer ultimately receives.

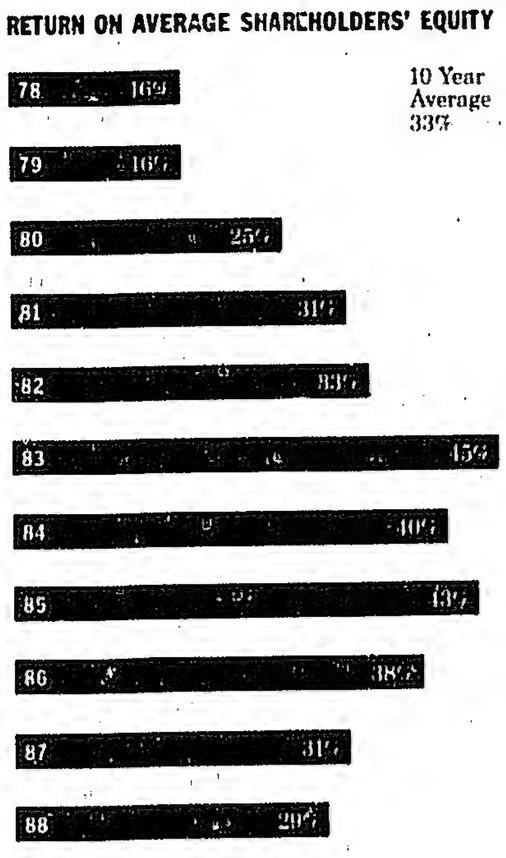
While moving quickly and effectively to deal with immediate realities, we never lost sight of our long range vision. During this period **we prepared for the future by** ■ adding 311 new stores and closing 50 underperforming stores ■ increasing net

THIS NATIONALLY PROMINENT business was purchased in February of 1988 and our search for a leader ended in January 1989 with the appointment of Sally Frame Kasaks as President and Chief Executive Officer. Sally has been customer-focused from the very beginning of her career as a sales associate in a department store. I believe she will provide the leadership necessary to develop Abercrombie & Fitch to its highest potential.

Offering quality sportswear and exclusive gift items.

ABERCROMBIE & FITCH

ACQUIRED IN 1988 **NUMBER OF STORES:** 25 **FOUNDED IN** 1892



selling square footage from 12.8 million to 14.3 million square feet ■ acquiring Abercrombie & Fitch ■ completing the new Limited Building, a one million square foot distribution center and Limited Stores' and Victoria's Secret's home offices ■ creating new store designs for Limited Stores, Express, Victoria's Secret and Lerner.

In the future no one will succeed–or even survive–without a solid financial base. We continue to pay close attention to the basics: asset management, cash flow, expense control and efficiency. We have enormous resources and financial flexibility. While we are aggressive about growth, we are equally conservative in our financial view.

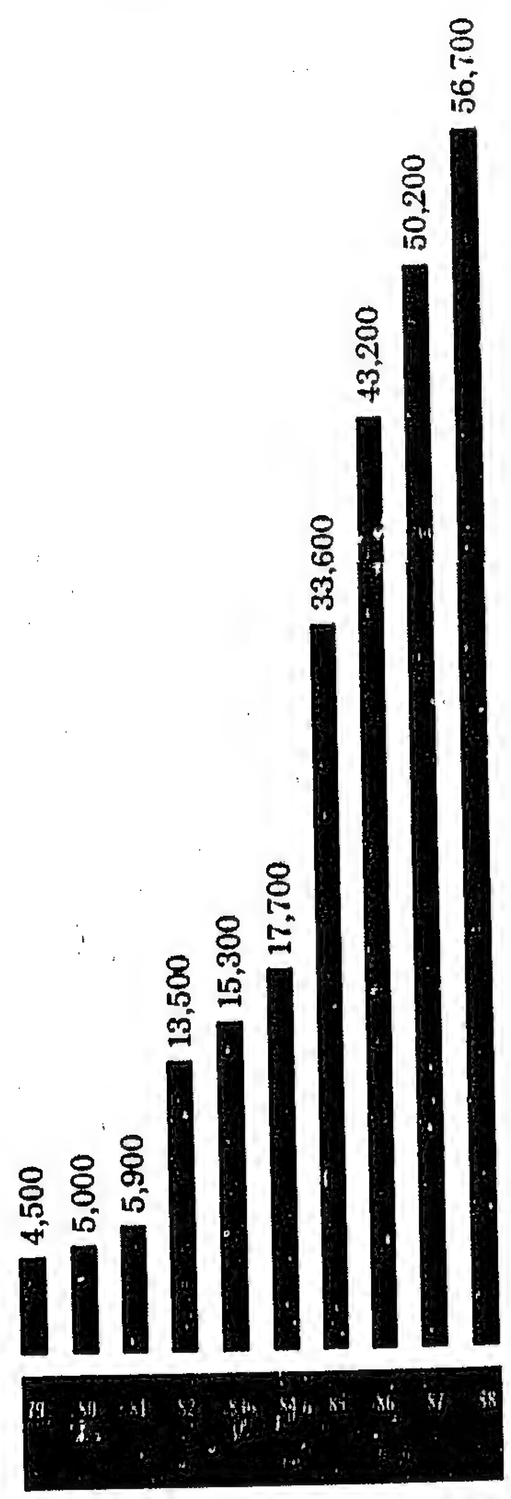
LANE BRYANT

ACQUIRED IN 1982
WITH 222 STORES
FOUNDED IN 1900
NUMBER OF STORES: 687

The nation's first retailer exclusively for large sizes offers sportswear, ready-to-wear, intimate apparel, career apparel and accessories to the fashion-conscious woman wearing sizes 14 and up.

LANE BRYANT'S PERFORMANCE steadily improved over the twelve months of 1988. Why? Because Ira Quint led his associates through some major changes—implementing a shorter merchandise cycle, launching a new store design and placing greater emphasis on fashion—all to make the business more appealing to the woman who shops Lane Bryant. Lane Bryant is giving the customer what she wants, and today it is the dominant retailer in the special-size business.

The future will belong to those retailers who can respond to the changing needs of their customers...and do it fast! If the recent past has been tough on the women's fashion industry, the future will be even tougher. Retail companies without merchant leaders, financial stability and real skills will not be able to successfully manage change in the coming years.



BRYLANE

Fashion catalogue business with the industry's most sophisticated shipping and receiving operation.

THROUGH its Lane Bryant and Roaman's catalogues, Brylane dominates the direct sales market for large-size fashions. Brylane also serves the junior and misses customer through the new Lerner catalogue. Brylane's better inventory control, quicker deliveries and improved quality all arise from the determination of Pete Canzone and his associates to be as service-oriented as the best of our retail operations.

ACQUIRED IN 1982

Financial Summary**

[thousands except per share amounts]

Fiscal Year	1988†	1987	1986	1985†
Summary of Operations				
Net Sales	**$4,070,777**	$3,527,941	$3,142,696	$2,387,110
Gross Income	**1,214,703**	992,775	961,827	718,843
Operating Income	**467,418**	408,872	438,229	276,212
Income Before Income Taxes	**396,136**	378,188	394,780	239,317
Net Income	**$ 245,136**	$ 235,188	$ 227,780	$ 145,317
Per Share Results				
Net Income	**$1.36**	$1.25	$1.21	$ .80
Dividends	**$ .24**	$ .24	$ .16	$.107
Book Value	**$5.28**	$4.08	$4.14	$2.25
Weighted Average Number of Shares Outstanding	**180,093**	188,313	188,430	182,819
Other Financial Information				
Net Income as a Percentage of Sales	**6.0%**	6.7%	7.2%	6.1%
Working Capital	**$ 567,639**	$ 629,783	$ 586,827	$ 419,706
Current Ratio	**2.2**	2.9	2.7	2.2
Total Assets	**$2,145,506**	$1,929,477	$1,726,544	$1,494,313
Long-Term Debt	**$ 517,952**	$ 681,000	$ 417,420	$ 670,744
Shareholders' Equity	**$ 946,207**	$ 729,171	$ 781,542	$ 404,075
Return on Average Shareholders' Equity	**29%**	31%	38%	43%
Total Number of Stores Open at End of Year	**3,381**	3,095	2,682	2,353

*Consists of 53 weeks.
**Restated to reflect the consolidation of the Company's wholly-owned finance subsidiary.
†Includes the results of companies acquired subsequent to the date of acquisition.

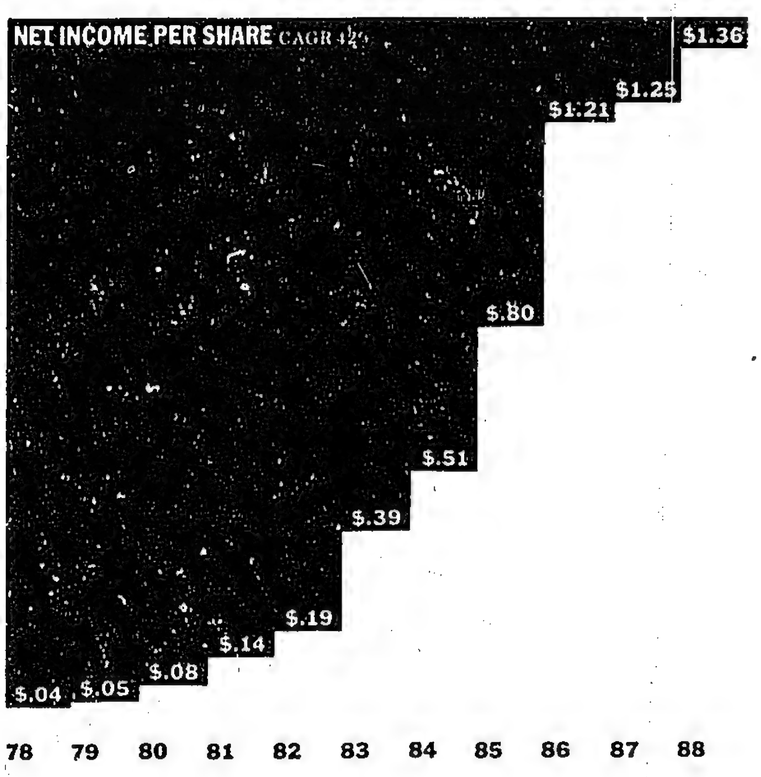
VICTORIA'S SECRET CATALOGUE

One of the fastest-growing mail order operations in the U.S. Offers intimate apparel and ready-to-wear merchandise.

SINCE ITS ACQUISITION in 1982, Victoria's Secret Catalogue has made steady progress: In 1988 record sales and earnings were achieved. This year the customer responded to the more sophisticated offering as Cynthia Fedus and her associates invigorated the business with improved customer service and a new, classic format. Today this is the dominant lingerie catalogue in the world.

We've been serving our customer for twenty-five years and we know that tomorrow it will be a different business—because it's a new business every day! We think this is the most exciting aspect of our work. I believe, in fact, that the future is going to be different in ways that we can't possibly imagine. Our company has demonstrated the ability to anticipate and manage change: We are uniquely positioned today...and determined to be even better prepared for the future.

Leslie H. Wexner



1984*	1983	1982†	1981	1980	1979*	1978
$1,343,134	$1,085,890	$721,394	$364,900	$295,016	$252,693	$218,876
404,321	327,616	209,374	109,246	81,919	62,749	53,757
173,102	135,377	70,943	38,386	23,191	12,549	10,843
157,495	134,939	60,592	38,486	20,817	8,588	7,695
$ 92,495	$ 70,939	$ 33,592	$ 22,386	$ 13,142	$ 7,063	$ 5,920
$ .51	$ .39	$ .19	$ .14	$ .08	$ .05	$ .04
$ .08	$ .04	$.024	$.013	$.009	$.007	$.006
$1.54	$1.08	$ .70	$ .50	$ .37	$ .29	$ .25
180,631	180,186	175,506	166,521	163,068	160,176	159,108
6.9%	6.5%	4.7%	6.1%	4.5%	2.8%	2.7%
$ 180,960	$ 101,665	$ 82,305	$ 23,728	$ 18,756	$ 14,041	$ 17,329
2.0	1.8	1.8	1.7	1.7	1.7	1.9
$ 657,242	$ 425,240	$367,979	$142,658	$116,551	$102,921	$ 98,176
$ 150,139	$ 68,763	$121,411	$ 16,571	$ 23,765	$ 30,909	$ 35,940
$ 275,403	$ 192,576	$122,578	$ 83,150	$ 60,093	$ 46,726	$ 39,597
40%	45%	33%	31%	25%	16%	16%
1,412	937	825	430	352	309	258

Consolidated **Statements of Income**

[thousands except per share amounts]

	1988	1987	1986
Net Sales	**$4,070,777**	$3,527,941	$3,142,696
Cost of Goods Sold, Occupancy and Buying Costs	**2,856,074**	2,535,166	2,180,869
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Net Income Per Share	**$1.36**	$1.25	$1.21

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Management's Discussion and Analysis

Results of Operations

Financial Summary

Presented below is summarized financial data expressed in percentage relationship to net sales and as compared to the prior period:

	% of Net Sales			% Change	
Fourth Quarter	**1988**	1987	1986	**1988-87**	1987-86
Net Sales	**100.0%**	100.0%	100.0%	**34%**	3%
Gross Income	**32.7%**	26.9%	31.1%	**63%**	(11%)
General, Administrative and Store Operating Expenses	**16.3%**	15.8%	14.7%	**38%**	11%
Interest Expense	**(1.2%)**	(1.3%)	(.9%)	**21%**	56%
Other Income (Expense), net	**(.8%)**	.2%	.1%	**n.m.**	n.m.
Net Income	**8.9%**	6.3%	8.9%	**90%**	(28%)

	% of Net Sales			% Change	
Fiscal Year	**1988**	1987	1986	**1988-87**	1987-86
Net Sales	**100.0%**	100.0%	100.0%	**15%**	12%
Gross Income	**29.8%**	28.1%	30.6%	**22%**	3%
General, Administrative and Store Operating Expenses	**18.4%**	16.6%	16.7%	**28%**	12%
Interest Expense	**(1.6%)**	(1.1%)	(1.5%)	**57%**	(12%)
Other Income (Expense), net	**(.2%)**	.3%	.1%	**n.m.**	n.m.
Net Income	**6.0%**	6.7%	7.2%	**4%**	3%

n.m.—not meaningful

Net Sales

The increase in fourth quarter net sales reflected a 25% increase in comparable store sales and sales from the 286 additional stores open at the end of the fourth quarter as compared to last year. The 1987 fourth quarter net sales increase of 3% over the same period in 1986 was due to sales from 413 additional stores reduced by a 3% decline in comparable store sales. This decline reflected consumer uncertainty as to women's fashion apparel, which the Company perceives as beginning in Fall 1987 and continuing through the Spring of 1988.

The 15% increase in net sales during fiscal 1988 reflected the additional sales from new stores and an 8% increase in comparable store sales. During 1987, the 12% increase in net sales resulted from the addition of 413 stores and a 3% increase in comparable store sales.

Gross Income

Fourth quarter 1988 gross income, as a percentage of sales, improved markedly over 1987 due to slightly higher initial markups and significantly fewer markdowns. Additionally, occupancy and buying costs, as a percentage of sales, were much improved, principally as a result of the higher 1988 sales volume.

In comparing the fourth quarter, 1987 to the same 1986 period, the decline in gross income percentage reflected the significant softening in demand for women's fashion apparel during the Fall 1987, Spring 1988 period. Initial markups were slightly lower, markdowns were much higher and occupancy and buying costs, as a percentage of sales, were also higher.

For the year 1988, gross income increased as initial markups improved and markdowns declined. These gains were partially reduced by higher occupancy and buying expenses, which the Company was not able to adequately leverage, due to the Spring 1988 decline in comparable store sales.

The reduction in gross income as a percentage of sales for fiscal year 1987 as compared to 1986 resulted from higher markdowns, higher occupancy and buying costs as a percentage of sales, and from costs related to repositioning Mast Industries to focus on foreign sourcing.

General, Administrative and Store Operating Expenses

During the fourth quarter 1988, these expenses increased at a slightly higher rate than sales due principally to higher point of sale marketing costs, holiday supplies and packaging costs, and enhanced emphasis on customer service, particularly at larger format Limited and Express stores.

For the fourth quarter 1987, as compared to the same quarter in 1986, these expenses increased more than the overall sales increase principally due to maintaining high levels of customer service despite volume shortfalls.

For fiscal year 1988, as compared to 1987, these expenses increased at a higher rate than the increase in sales due to higher average store expenses associated with newer stores and additional payroll costs associated with higher levels of customer service.

For fiscal 1987, expense rate improvements experienced during the first half of the year were offset because of the Fall season sales shortfall, resulting in these expenses increasing at the same rate as the overall annual sales increase.

Interest Expense

Fourth quarter 1988 interest expense increased 21% over the fourth quarter 1987, principally due to a general increase in interest rates offset to a degree by lower average borrowings. The 56% increase during the fourth quarter 1987 when compared to the same period in 1986 was due to additional borrowings required to finance the acquisition of treasury stock during 1987.

Fiscal 1988 interest expense, when compared to the same period in 1987, reflects an increase in both average borrowings (due principally to the 1987 treasury stock repurchase and the acquisition of Abercrombie & Fitch) and higher average interest rates. The 1987 decrease of 12% from fiscal 1986 was due principally to the mid-year conversion, in 1986, of two convertible debt issues.

Other Income (Expense), net

Other income (expense), net in 1988 includes a $12 million charge in the fourth quarter, as a result of the transfer, as described in Note 3, of certain marketable securities from a long-term investment to a current asset classification.

Provision for Income Taxes

Effective tax rates were 38.1%, 37.8% and 42.3% for fiscal 1988, 1987 and 1986. The decrease in 1987 versus 1986 was due principally to the rate reduction under the Tax Reform Act of 1986. For 1988, the final rate reduction called for by the Tax Reform Act of 1986 was offset by marginally higher state income taxes and by providing deferred taxes on unremitted 1988 foreign earnings.

Consolidated **Balance Sheets**

[thousands]

	January 28, 1989	January 30, 1988
Assets		
Current Assets		
Cash and Equivalents	$ 15,276	$ 47,953
Accounts Receivable	531,461	514,101
Inventories	407,006	353,693
Other	69,851	47,906
Total Current Assets	1,023,594	963,653
Property and Equipment, net	1,066,646	889,155
Other Assets	55,266	76,669
Total Assets	$2,145,506	$1,929,477
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts Payable	$ 189,184	$ 153,528
Accrued Expenses	189,579	131,602
Income Taxes	77,192	48,740
Total Current Liabilities	455,955	333,870
Long-Term Debt	517,952	681,000
Deferred Income Taxes	198,893	174,209
Other Long-Term Liabilities	26,499	11,227
Shareholders' Equity		
Common Stock	94,863	94,837
Paid-in Capital	203,693	205,328
Retained Earnings	879,386	677,232
Unrealized Loss on Marketable Equity Securities	—	(8,219)
	1,177,942	969,178
Less Treasury Stock, at Cost	(231,735)	(240,007)
Total Shareholders' Equity	946,207	729,171
Total Liabilities and Shareholders' Equity	$2,145,506	$1,929,477

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Management's Discussion and Analysis

Financial Condition

Liquidity and Capital Resources

Cash provided from operating activities, the Company's capital structure and resources available under committed long-term credit agreements provide the financial stability to support both current operations and future growth. The Company's capital structure is as follows (000's):

	1988	1987	1986
Working capital	$ 567,639	$ 629,783	$ 586,827
Capitalization—			
Long-term debt (see note 6 to consolidated financial statements for a complete description)	$ 517,952	$ 681,000	$ 417,420
Deferred income taxes	198,893	174,209	169,414
Shareholders' equity	946,207	729,171	781,542
Total capitalization	$1,663,052	$1,584,380	$1,368,376
Additional amounts available under committed credit agreements	$ 882,000	$ 569,000	$1,588,000

The Company considers the following to be several measures of liquidity and capital resources:

	1988	1987	1986
Cash provided from operating activities	$ 492,879	$ 369,768	$ 290,432
Liquidity and asset utilization ratios:			
Cash flow to liabilities (cash flow from operating activities divided by total current and long-term liabilities)	41%	31%	31%
Cash flow to capital investment (cash flow from operating activities divided by additions to property and equipment)	171%	130%	148%
Debt ratio (long-term debt divided by total capitalization)	31%	43%	31%
Interest coverage (income before interest expense, depreciation and taxes divided by interest expense)	9.4	13.0	11.7

As the tables indicate, cash provided from operating activities is the Company's primary source of liquidity. In addition, the Company had $882 million available at January 28, 1989 under committed long-term credit agreements totalling $1.4 billion, including the $400 million receivable finance facility utilized by its finance subsidiary (which has been replaced by adding $300 million of availability to the two revolving credit agreements). The Company believes its liquidity and capital resources are sufficient to sustain current operations and provide for future growth.

Capital Requirements

Capital additions in 1988, 1987 and 1986 amounted to $289.0 million, $283.6 million and $196.5 million, respectively. These additions were principally for new stores, remodeling and renovation of existing stores, plus equipment additions. Throughout the 1986 through 1988 period, over $87 million was expended in constructing and equipping the Company's third major distribution and office facility in Columbus, Ohio. During 1989, capital expenditures of approximately $325 million are anticipated, principally for the construction of 220 to 250 new stores, the remodeling of existing stores and the renovation and upgrading of the Company's two other Columbus distribution facilities. Management anticipates these capital requirements will be satisfied by cash generated from operating activities.

The Company's capital requirements for 1988 also included $45.2 million to acquire the assets of Abercrombie & Fitch. This business presently offers moderate to better-priced sportswear and outdoor oriented sporting apparel for men and women and related gift items, through its 25 retail stores.

Impacts of Inflation

The Company's financial condition and results of operations are presented on an historical cost basis. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, the Company believes that the effects of inflation, if any, on the financial condition and results of operations, have been minor.

Consolidated **Statements of Cash Flows**
[thousands]

	1988	1987	1986
Cash Flows from Operating Activities:			
Net income	**$245,136**	$235,188	$227,780
Impact of other operating activities on cash flows:			
Depreciation and amortization	**142,469**	109,353	97,393
Changes in assets and liabilities:			
Accounts receivable	**(16,930)**	13,735	(108,161)
Inventories	**(44,072)**	7,796	(41,184)
Accounts payable and accrued expenses	**91,570**	(18,266)	14,844
Income taxes	**53,136**	19,572	93,202
Other assets and liabilities	**21,570**	2,390	6,558
Net Cash Provided from Operating Activities	**492,879**	369,768	290,432
Investing Activities:			
Capital expenditures	**(288,972)**	(283,590)	(196,487)
Acquisition of Abercrombie & Fitch	**(45,206)**	—	—
Other	**7,989**	(25,721)	—
Net Cash Used for Investing Activities	**(326,189)**	(309,311)	(196,487)
Financing Activities:			
Net (repayments) borrowings under long-term debt agreements	**(163,048)**	263,580	(78,324)
Purchase of treasury stock	**—**	(240,007)	—
Dividends paid	**(42,982)**	(44,724)	(29,507)
Stock options and other	**6,663**	5,391	4,194
Net Cash Used for Financing Activities	**(199,367)**	(15,760)	(103,637)
Net (Decrease) Increase in Cash and Equivalents	**(32,677)**	44,697	(9,692)
Cash and equivalents, beginning of year	**47,953**	3,256	12,948
Cash and Equivalents, End of Year	**$ 15,276**	$ 47,953	$ 3,256

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Management's Discussion and Analysis

Adoption of New Accounting Standards

Within the past eighteen months, the Financial Accounting Standards Board (FASB) has issued three statements, none of which will impact the operations or cash flow of the Company, but do have an effect upon the presentation of its consolidated financial condition and the manner in which the Company reports its consolidated results of operations.

Consolidation of Finance Subsidiary

FASB Statement No. 94 requires the consolidation of all majority-owned subsidiaries. Accordingly, the accompanying consolidated financial statements include the operations of the Company's wholly-owned finance subsidiary, and all prior periods presented have been appropriately restated. Because the Company has always included the results of operations of the finance subsidiary using the equity method, this consolidation requirement had no impact on the Company's reported results of operations. The principal effect of the consolidation is to include the accounts receivable and related debt of the finance subsidiary in the reported balance sheets. This consolidation requirement has had no negative impact on the Company's credit arrangements.

Accounting for Income Taxes

FASB Statement No. 96, "Accounting for Income Taxes", requires the adoption of new tax accounting and disclosure rules no later than fiscal 1990 (originally required to be adopted in fiscal year 1989, but deferred for one year by FASB Statement No. 100).

Based on existing conditions, the Company will adopt the new standard in fiscal 1990 and will not elect to restate prior periods. The benefit from the cumulative adjustment required as a result of reflecting deferred Federal income taxes at the present statutory rate (34%) is reduced by the requirement to establish a deferred income tax liability for all remaining acquisition timing differences (principally relating to Lerner). The net impact is anticipated to be favorable but insignificant.

Statements of Cash Flows

The Company adopted FASB Statement No. 95 "Statement of Cash Flows" during this fiscal year. This pronouncement requires that a statement of cash flows be included as part of a set of basic financial statements and replaces the previous Statement of Changes in Financial Position. Cash flows from major operating, investing and financing activities are now separately presented. Although not required, prior years have been restated to enhance the readability and comparability of the new statements.

For fiscal 1988, cash flow from operating activities increased from $369.8 million to $492.9 million, reflecting the Company's emphasis on inventory management and accounts payable and other current liability management.

During 1988, 1987 and 1986, interest paid amounted to $65.9 million, $38.5 million and $42.7 million respectively, and income tax payments for the same periods were $93.4 million, $126.4 million and $59.3 million.

Other investment activities include the Company's investment in marketable equity securities and cash flows from several minor joint ventures.

During 1986, the Company issued 8,312,000 shares of common stock upon conversion of $175 million of convertible debentures. No other significant non-cash activities occurred during the 1988, 1987 and 1986 fiscal years.

Change in Independent Public Accountants

On February 24, 1989, the Audit Committee of the Board of Directors determined not to engage Arthur Andersen & Co. to audit the Company's financial statements for fiscal year 1989, and established an evaluation committee to examine the qualifications of certain accounting firms and to make a recommendation to the Audit Committee for new independent accountants. The Board of Directors of the Company, upon receiving the recommendation of the Audit Committee, presently intends to make its selection of independent public accountants prior to the Annual Meeting on May 22, 1989. During the Company's two most recent fiscal years, there were no disagreements with Arthur Andersen & Co. on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of Arthur Andersen & Co., would have caused Arthur Andersen & Co. to make reference to the subject matter of the disagreement in their reports.

Consolidated **Statements of Shareholders' Equity**
[thousands]

	Common Stock						
	Shares Outstanding	Par Value	Paid-in Capital	Retained Earnings	Unrealized Loss on Marketable Equity Securities	Treasury Stock, at Cost	Total Shareholders' Equity
Balance, February 1, 1986	**119,834**	**$59,917**	**$ 24,695**	**$319,463**	**$ —**	**$ —**	**$404,075**
Net income	—	—	—	227,780	—	—	227,780
Cash dividends	—	—	—	(29,507)	—	—	(29,507)
Three-for-two stock split	60,032	30,016	—	(30,016)	—	—	—
Conversion of debentures	8,312	4,156	170,844	—	—	—	175,000
Exercise of stock options and other	618	309	3,885	—	—	—	4,194
Balance, January 31, 1987	**188,796**	**94,398**	**199,424**	**487,720**	**—**	**—**	**781,542**
Net income	—	—	—	235,188	—	—	235,188
Cash dividends	—	—	—	(44,724)	—	—	(44,724)
Purchase of treasury stock	(10,828)	—	—	—	—	(240,007)	(240,007)
Exercise of stock options and other	879	439	5,904	(952)	(8,219)	—	(2,828)
Balance, January 30, 1988	**178,847**	**94,837**	**205,328**	**677,232**	**(8,219)**	**(240,007)**	**729,171**
Net income	—	—	—	245,136	—	—	245,136
Cash dividends	—	—	—	(42,982)	—	—	(42,982)
Exercise of stock options and other	425	26	(1,635)	—	8,219	8,272	14,882
Balance, January 28, 1989	**179,272**	**$94,863**	**$203,693**	**$879,386**	**$ —**	**$(231,735)**	**$946,207**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Notes to Consolidated Financial Statements

[thousands except per share amounts]

1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of The Limited, Inc. (the Company) and its subsidiaries including the Company's wholly-owned finance subsidiary. The consolidated balance sheet as of January 30, 1988 has been restated to reflect the consolidation of the wholly-owned finance subsidiary, which was previously accounted for using the equity method. Significant intercompany balances and transactions have been eliminated in consolidation.

The Company has adopted during 1988 or will adopt in 1990, certain financial reporting and accounting standards which have recently been issued by the Financial Accounting Standards Board. A more detailed discussion of these matters is included under the heading "Adoption of New Accounting Standards" in Management's Discussion and Analysis, on page 19 of this Annual Report.

Fiscal Year

Fiscal years are designated in the consolidated financial statements and notes by the calendar year in which the fiscal year commences. Accordingly, results for fiscal years 1988, 1987 and 1986 represent the 52 week periods ended January 28, 1989, January 30, 1988 and January 31, 1987.

Cash and Equivalents

Cash and equivalents include amounts on deposit with financial institutions and money market investments with maturities of less than 90 days.

Inventories

Inventories are principally valued at the lower of average cost or market, on a first-in first-out basis, utilizing the retail method.

Marketable Equity Securities

Marketable equity securities are valued at the lower of aggregate cost or market. Adjustments resulting from the revaluation of marketable equity securities which are carried as current assets are charged or credited to earnings. Valuation allowances for long-term investments, net of related deferred tax benefits, are reflected as a separate component of shareholders' equity.

Property and Depreciation

Depreciation and amortization of property and equipment are computed for financial reporting purposes on a straight-line basis, using service lives ranging principally from 20-30 years for buildings and improvements and 3-10 years for other property and equipment. The cost of assets sold or retired and the related accumulated depreciation or amortization are removed from the accounts with any resulting gain or loss included in net income. Maintenance, repairs and minor renewals are charged to expense as incurred. Renewals and betterments which extend service lives are capitalized.

Provision for Income Taxes

The provision for income taxes is based on income reported for financial statement purposes, and includes a deferred provision for the tax effect of timing differences between the financial and tax reporting of revenue and expense items. Deferred Federal income taxes, net of applicable foreign tax credits, are not provided on the undistributed earnings of foreign subsidiaries to the extent the Company intends to permanently reinvest such earnings abroad (approximately $160 million at January 28, 1989).

Shareholders' Equity

Five hundred million shares of $.50 par value common stock are authorized, of which 179.3 million are outstanding after reduction for the 10.4 million shares held in treasury. Ten million shares of $1.00 par value preferred stock are authorized, none of which have been issued.

Net Income Per Share

Net income per share is computed based upon the weighted average number of outstanding common shares and reflects, where appropriate, the effect of stock options and subordinated convertible debt outstanding during the periods reported, as restated for stock splits.

2. Accounts Receivable

Accounts receivable consisted of:

	1988	1987
Deferred payment accounts	$486,193	$470,625
Trade and other	65,464	59,723
Allowance for uncollectible accounts	(20,196)	(16,247)
	$531,461	$514,101

Finance charge revenue on deferred payment accounts amounted to $84.5 million, $88.4 million and $81.0 million in 1988, 1987 and 1986, respectively, and the provision for uncollectible accounts amounted to $38.0 million, $44.4 million and $49.9 million in 1988, 1987 and 19[illegible], respectively. These amounts are classified as [illegible]nts of the cost of administering the deferred [illegible] program and are included in general, admini[illegible]d store operating expenses.

3. Marketable Equity Securities

Prior to October 19, 1987 the Company acquired certain marketable equity securities for long-term investment. In subsequent financial statements, a valuation allowance was established to reflect reductions in the market value of the securities. The allowance, net of the related deferred tax benefits, was reflected as a separate component of shareholders' equity ($8.2 million at January 30, 1988).

During the fourth quarter 1988, the Company traded certain of the securities and accordingly transferred them to a current asset. In conjunction with the transfer, a $12.1 million loss was recognized and is included in other income (expense) in the accompanying Consolidated Statements of Income.

4. Property and Equipment

Property and equipment consisted of:

	1988	1987
Cost		
Land, buildings and improvements	$ 218,677	$ 138,498
Furniture, fixtures and equipment	685,233	548,276
Leaseholds and improvements	565,484	471,165
Construction in progress	46,335	79,085
	1,515,729	1,237,024
Less—Accumulated depreciation and amortization	449,083	347,869
Property and equipment, net	$1,066,646	$ 889,155

5. Leased Facilities and Commitments

Annual store rent is comprised of a fixed minimum amount, plus contingent rent based upon a percentage of sales exceeding a stipulated amount. Store lease terms generally require additional payments to the landlord covering taxes, maintenance and certain other expenses.

A summary of rent expense for 1988, 1987 and 1986 follows:

	1988	1987	1986
Store rent			
Fixed minimum	$217,296	$171,360	$126,616
Contingent	24,169	20,320	22,141
Total store rent	241,465	191,680	148,757
Equipment & other	25,508	30,284	22,297
Total rent expense	$266,973	$221,964	$171,054

At January 28, 1989, the Company was committed under store leases with initial terms ranging from ten to twenty years. Accrued rent expense amounted to $43,361 and $26,345 at January 28, 1989 and January 30, 1988, respectively.

A summary of approximate minimum rent commitments under noncancellable leases follows:

1989	$ 266,000
1990	265,000
1991	261,000
1992	252,000
1993	242,000
Thereafter	$1,154,000

Notes to Consolidated Financial Statements

[thousands except per share amounts]

6. Long-Term Debt

Long-term debt consisted of:

	1988	1987
Commercial paper	**$164,952**	$ —
Receivable finance facility	**353,000**	338,000
Revolving credit agreements	**—**	343,000
	$517,952	$681,000

The Company entered into two revolving credit agreements in May 1988, one for $300 million and one for $700 million. These agreements replaced an $800 million revolving credit facility, are available for general corporate purposes and are also used for commercial paper back-up. So long as the remaining terms of these credit agreements exceed one year and any unused commitments thereunder exceed the amount of commercial paper outstanding, commercial paper obligations will be classified as long-term.

The initial term for the credit agreements is three years and may be extended annually at the Company's option, unless the lenders provide, approximately one year prior to expiration, advance notification not to extend. Upon expiration of the initial three-year term of the $700 million agreement (May 31, 1991), or any extensions thereof, the amount outstanding will be repaid in eight, equal semi-annual installments. Each credit agreement is unsecured and has several borrowing options, with interest rates at either the Prime Rate, a rate based upon the lenders' cost of funds, or at a rate submitted under a bidding process. The commitment and facility fees on these credit agreements approximate 1/8% of the unused commitment. The terms of the agreements place certain restrictions on the Company's levels of working capital, debt and net worth. No amounts were outstanding under either of the credit agreements at January 28, 1989.

At January 28, 1989 the Company's wholly-owned finance subsidiary had $353 million outstanding under a $400 million receivable finance facility. Borrowings under the receivable finance facility are secured by a lien on customer charge-card receivables equal to at least 125 percent of the amount borrowed. The terms of the facility place certain restrictions on the subsidiary including a minimum ratio of assets to borrowings. The Company's subsidiary pays interest at a rate equivalent to the rate issued by the commercial paper financing company plus certain fees based on average outstanding borrowings and the total facility (aggregating approximately 8.7% in 1988 and 7.8% in 1987). This facility has been replaced by adding $300 million of availability to the two revolving credit agreements.

In addition, the Company filed a shelf registration statement during 1988 allowing for the issuance of up to $300 million of senior unsecured debt securities. There were no amounts outstanding related to these debt securities at January 28, 1989.

7. Income Taxes

The provision for income taxes consisted of:

	1988	1987	1986
Currently payable:			
Federal	**$124,900**	$110,300	$ 65,700
State	**14,500**	9,600	1,700
Foreign	**7,000**	12,400	8,900
	146,400	132,300	76,300
Deferred:			
Federal	**(8,200)**	5,300	74,300
State	**12,800**	5,400	16,400
	4,600	10,700	90,700
Total provision	**$151,000**	$143,000	$167,000

The foreign component of pre-tax income in 1988, 1987 and 1986 is $40,200, $66,100 and $55,900, respectively.

Reconciliation of the effective income tax rate with the statutory Federal income tax rate is as follows:

	1988	1987	1986
Federal income tax rate	**34.0%**	39.0%	46.0%
State income tax, net of Federal income tax effect	**4.5**	2.4	2.5
Investment tax credits	**—**	—	(1.0)
Foreign operations	**—**	(3.5)	(4.2)
Other, net	**(.4)**	(.1)	(1.0)
	38.1%	37.8%	42.3%

The components of the deferred tax provision are as follows:

	1988	1987	1986
Excess of tax depreciation over book depreciation	**$19,200**	$25,600	$28,400
Deferred profit on receivables	**(22,200)**	(16,700)	53,300
Other, net	**7,600**	1,800	9,000
	$ 4,600	$10,700	$90,700

The Tax Reform Act of 1986 eliminated the use of the installment method for recognizing income on sales from the Company's credit card operations and requires that income on deferred sales at January 31, 1987 be included in taxable income over a four-year period beginning in 1987. At January 28, 1989, approximately $29 million of deferred income taxes relating to installment sales were classified as long-term, all of which will become current during 1989.

8. Stock Options

The Company had approximately 6.2 million shares available for grant to employees at January 28, 1989 under stock option plans as compared to 6.6 million shares available at January 30, 1988. Approximately 2.3 million shares of the Company's common stock were reserved for outstanding options, of which 1.3 million were exercisable as of January 28, 1989. Option activity for the year ended January 28, 1989 follows:

	Number of Shares	Weighted Average Option Price Per Share
Outstanding options, January 30, 1988	2,458,000	$12.58
Activity during 1988:		
Granted	475,000	$19.09
Exercised	(417,000)	$ 4.95
Cancelled	(217,000)	$17.62
Outstanding options, January 28, 1989	2,299,000	$14.83

Notes to Consolidated Financial Statements

[thousands except per share amounts]

9. Finance Subsidiary

World Financial Network, Inc., a wholly-owned consolidated finance subsidiary purchases, without recourse, certain receivables generated by the Company's credit card operations. These purchases are financed through a $400 million receivable finance facility as described in Note 6. Beginning in May 1987, the receivables were purchased at discounts sufficient to cover fixed charges (principally interest expense). Prior to that time, the discount approximated one and one-half times fixed costs. Net earnings of the finance subsidiary operations totalled $0.1 million, $2.1 million and $7.5 million in 1988, 1987, and 1986 respectively. Condensed balance sheets of the finance subsidiary operations are presented as follows.

Assets	January 28, 1989	January 30, 1988
Customer receivables purchased from wholly-owned subsidiaries of The Limited, Inc.	$473,100	$465,600
Liabilities and Investment		
Borrowings under credit agreement	$353,000	$338,000
Contract withholding account and other	49,600	50,100
	402,600	388,100
Investment of The Limited, Inc., including $69,500 at January 28, 1989, and $76,600 at January 30, 1988 under subordinated debt arrangements	70,500	77,500
	$473,100	$465,600

The subordinated debt is payable under a $100 million Revolving Subordinated Demand Promissory Note. The note calls for quarterly payments of interest at a rate which approximates the rate which the Company pays under its long-term credit arrangements (approximately 8% during 1988 and 7¼% in 1987). Principal is to be repaid one year and one day after demand.

10. Quarterly Financial Data (Unaudited)

Summarized quarterly financial results are as follows:

Fiscal Quarter	First	Second	Third	Fourth
1988				
Net Sales	$811,075	$893,104	$1,010,616	$1,355,982
Gross Income	214,914	241,647	314,836	443,396
Net Income	23,864	30,701	70,426	120,145
Net Income Per Share	$.13	$.17	$.39	$.67
1987				
Net Sales	$803,545	$822,111	$ 891,726	$1,010,559
Gross Income	219,912	237,689	262,856	272,318
Net Income	45,457	57,161	69,254	63,316
Net Income Per Share	$.24	$.30	$.36	$.35

Independent Public **Accountants' Report**

To The Limited, Inc.:

We have audited the accompanying consolidated balance sheets of The Limited, Inc. (a Delaware corporation) and subsidiaries as of January 28, 1989 and January 30, 1988, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three fiscal years in the period ended January 28, 1989 (appearing on pages 14, 16, 18 and 20 through 25). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Limited, Inc. and subsidiaries as of January 28, 1989 and January 30, 1988, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended January 28, 1989, in conformity with generally accepted accounting principles.

As explained in Note 1 to the consolidated financial statements, The Limited, Inc. has given retroactive effect to the provisions contained in Statement of Financial Accounting Standards No. 94 by consolidating World Financial Network, Inc., its wholly-owned finance subsidiary.

Arthur Andersen & Co.

Columbus, Ohio
February 13, 1989

Market Price and Dividend Information

	Market Price		Cash Dividend Per Share
	High	Low	
Fiscal Year 1988			
4th Quarter	$30 3/8	$24	$ .06
3rd Quarter	26 3/8	19 3/4	.06
2nd Quarter	25 1/8	17 1/4	.06
1st Quarter	22 5/8	16 3/8	.06
Fiscal Year 1987			
4th Quarter	$22 1/4	$15 7/8	$ .06
3rd Quarter	52 1/4	16 5/3	.06
2nd Quarter	48 1/2	37 1/2	.06
1st Quarter	48 3/4	38	.06

The Company's common stock ("LTD") is traded on the New York Stock Exchange, the London Stock Exchange and the Tokyo Stock Exchange. On January 28, 1989, there were 21,900 shareholders of record. However, when including active associates who participate in the Company's stock purchase plan, associates who own shares through Company sponsored retirement plans and others holding shares in broker accounts under street name, the Company estimates the shareholder base at approximately 80,000.



Leslie H. Wexner
Chairman



Verna Gibson
President
Limited Stores



Michael A. Weiss
President
Express



Robert C. Grayson
President
Lerner



Kenneth B. Gilman
Executive Vice President
Chief Financial Officer



Howard Gross
President
Victoria's Secret



Ira Quint
President
Lane Bryant



Raphael Benaroya
President
Lerner Woman



Thomas G. Hopkins
Executive Vice President
Organizational
Development



Sally Frame Kasaks
President
Abercrombie & Fitch



Mark Shulman
President
Henri Bendel



Peter J. Canzone
President
Brylane



Cynthia Fedus
President
Victoria's Secret
Catalogue



Martin Trust
President
Mast Industries



C. Lee Johnson
President
Limited Distribution
Services



Charles W. Hinson
President
Limited Store Planning



Ralph Spurgin
President
Limited Credit Services

Directors

Leslie H. Wexner (a)
Chairman of the Board

Bella Wexner
Secretary

Martin Trust
President
Mast Industries, Inc.
Andover, Massachusetts

W. Arthur Cullman
Professor Emeritus of Marketing
The Ohio State University
Columbus, Ohio

John W. Kessler (a)
Real Estate Developer
Columbus, Ohio

David T. Kollat
President
22 inc., a management consulting
and marketing research firm
Worthington, Ohio

Claudine B. Malone (b)
Management Consultant
McLean, Virginia

John K. Pfahl (b)
Management Consultant
Columbus, Ohio

Donald B. Shackelford
Chairman of the Board
State Savings Bank
Columbus, Ohio

Allan R. Tessler (b)
Chairman and
Chief Executive Officer
International Financial Group, Inc.
New York, New York

Raymond Zimmerman (b)
Chairman of the Board
and President
Service Merchandise Co., Inc.
Brentwood, Tennessee

(a) Member of Executive Committee
(b) Member of Audit Committee

Executive Officers

Leslie H. Wexner
Chairman of the Board

Bella Wexner
Secretary

Kenneth B. Gilman
Executive Vice President
Chief Financial Officer

Thomas G. Hopkins
Executive Vice President
Organizational Development

Wade H. Buff
Vice President
Internal Audit

Alfred S. Dietzel
Vice President
Financial and Public Relations

William K. Gerber
Vice President
Corporate Controller

Timothy B. Lyons
Vice President
Taxes

Margaret T. Monaco
Vice President
Treasurer

DESIGN: M&Co., NEW YORK

Corporate Offices
Two Limited Parkway
P.O. Box 16000
Columbus, Ohio 43216
(614) 479-7000

Annual Meeting
The Annual Meeting of Shareholders
is scheduled for 9 a.m.
Monday, May 22, 1989, at the
Aladdin Temple Shrine
3850 Stelzer Road
Columbus, Ohio 43219

Date Founded 1963

Number of Associates 56,700

Approximate Shareholder Base 80,000

Overseas Offices
London, England
Kowloon, Hong Kong
Florence, Italy
Osaka, Japan
Seoul, Korea
Columbo, Sri Lanka
Taipei, Taiwan

10-K Report
A copy of Form 10-K is available without
charge upon written request to
Alfred S. Dietzel, Vice President
The Limited, Inc.
Two Limited Parkway
P.O. Box 16000
Columbus, Ohio 43216

Stock Transfer Agent,
Registrar and Dividend Agent
Morgan Shareholder Services Trust Company
30 West Broadway
New York, New York 10007
(212) 587-6515

Stock Exchange Listings
New York Stock Exchange
(Trading Symbol "LTD")
London Stock Exchange
Tokyo Stock Exchange

Legal Counsel
Schwartz, Kelm, Warren & Rubenstein
Columbus, Ohio

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